

REPUBLIC OF KENYA

KAJIADO COUNTY GOVERNMENT

**COUNTY BUDGET REVIEW
AND OUTLOOK PAPER**

SEPTEMBER 2014

FORWARD

Kajiado County Budget Review and Outlook Paper (CBROP) 2014, is the second to be prepared under the administration of the County Government. It presents the fiscal outcome for 2013/14 financial year and how this affects the financial objectives set out in the 2014/15 Fiscal Strategy Paper. The updated macroeconomic outlook therein also provides us with a basis to revise the 2014/15 budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the next budget and medium term.

The Public Financial Management (PFM) Act, 2012 ushered in a paradigm shift in budget making. Apart from introducing reforms in our public financial management system, the law entrenched the Medium Term Expenditure (MTEF) Framework budgeting.

Implementation of the 2013/14 financial year budget mainly facilitated the formative phase of the County Government. While these did not go without challenges, the year closed satisfactory despite the revenue shortfall and significant expenditure reprioritization. The outcome has had implications on the base in which the fiscal projections for the current financial year were based on.

The Kenya fiscal stance aims at putting the economy back on the path of high and sustained growth. From this end as a county, we remain committed in maintaining macroeconomic stability, implementing the legal framework for revenue collection and setting systems to enhance financial management to support expenditure pressures especially to support infrastructural growth. More important, greater transparency and high quality management of public finances will be necessary to achieve the aspirations of the Kajiado residents.

Mr. Keswe Mapena

County EXECUTIVE MEMBER FOR FINANCE

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ACRONYMS

CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CG	County Government
CIDP	County Integrated Development Plan
CILOR	Contribution in Lieu of Rates
CPSB	County Public Service Board
EAPC	East Africa Portland Cement Company
ECDE	Early Childhood Development Education
FY	Financial Year
IFMIS	Integrated Financial Management Information System
MTEF	Medium Term Expenditure Framework
PFM	Public Financial Management Act
SACCOs	Savings and Credit Cooperative Organization
SRC	Salaries and Remuneration Commission

Legal background for the preparation of the County Budget and Review Outlook Paper (CBROP)

The County Budget Review and Outlook Paper (CBROP) is prepared in accordance with section 118 of the Public Finance Management (PFM) Act 2012. The act stipulates that the County Treasury shall;

- Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
- Submit the paper to the County Executive Committee by the 30th September of that year.

Objectives of the CBROP

The County Budget Review and Outlook Paper shall specify;

- The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
- The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
- Information on;
 - Any changes in the forecasts compared with the County Fiscal Strategy Paper; or
 - How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
 - Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

Introduction

1. Kajiado County Budget Review and Outlook Paper is the second to be prepared under the administration of the County Government. The CBROP presents a review of the fiscal performance for the previous financial year, 2013/14.
2. The macroeconomic outlook will partly provide the basis for the revision of the Financial Year 2014/15 budget in the context of the supplementary estimates, as well as setting out the broad fiscal parameters for the next budget and medium term.
3. The fiscal outlook will help the county build strategies to enhance revenue raising measures especially locally. In the last section, the paper offers some conclusions and the way forward.

Review of fiscal performance for F/Y 2013/14

A. Overview

4. This section is meant to review how the actual financial performance for the 2013/14 financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year. The county financial operations are reported as from July 2013 to June 2014.

B. Fiscal Responsibility

5. In observing fiscal responsibility the PFMA section 15 states that;
 - Over medium term a minimum of thirty percent of the county governments budget shall be allocated to the development expenditure.
 - The county expenditure on wages and benefits for its public officers shall not exceed a percentage of the county revenue as prescribed by regulations.
 - Over medium term the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

- Public debt and obligations shall be maintained at a sustainable level as approved by the county assembly.
- Fiscal risks shall be managed prudently.
- A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in future.

C. Fiscal Performance

6. The fiscal performance for 2013/14 was pleasing despite a number of short comings which included;
 - i. Delays in disbursement of funds as scheduled by the national government.
 - ii. Under performance of the local revenue.

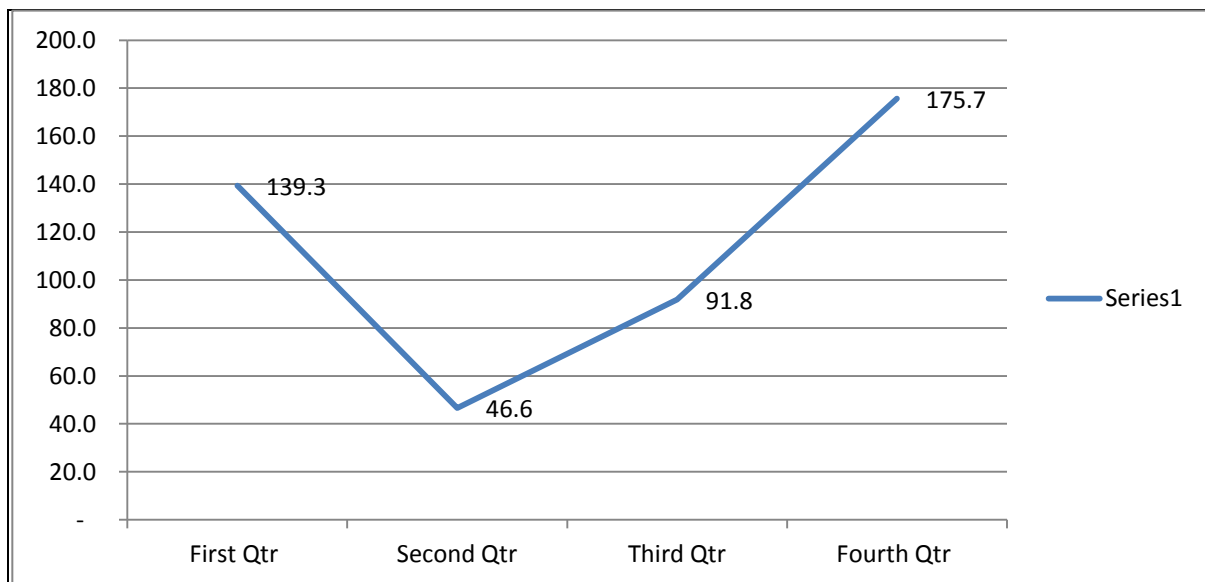
Revenues

7. During the period under review, the County had two sources of revenue, equitable share from the national government and local revenue. The county had annual budget of Kshs. 4.0 billion comprising Kshs. 2.8 billion (69%) for recurrent expenditure and Kshs. 1.2 billion (31%) for development expenditure. The budget was to be financed by national shareable revenue of Kshs. 3.5 billion and Kshs. 516.8 million from local revenue collections. However, the final approved estimates was 3.75billion comprising of 1.2billion (32.4%) for development and 2.5billion for recurrent (67.6%).
8. In 2013/2014 financial year the County received Kshs. 2.8 billion as national shareable revenue and collected Kshs. 453.4 million from local revenue sources. The local revenue collected represents 88 per cent of the annual local revenue target. Revenue target in the year was commendable despite the following challenges;
 - i. Delay in automation of revenue collection

- ii. Inadequate enforcement officers
- iii. Lack of vehicles for supervision.
- iv. Resistance from the business community caused by lack of awareness.
- v. Kshs. 212million was recovered by the National Treasury as salaries for devolved function staff.
- vi. The conditional grant amounting to Kshs. 284 million was never realized
- vii. Unpaid debts from our key debtors i.e Magadi soda company, EAPC, and CILOR

9. These challenges are being addressed to enhance revenue collection. A directorate of revenue collection is already in place which is charged with revenue administration and management. Various ministries/departments have been charged with the responsibility to collect different revenue streams, where each is given a target. The revenue department supervises collection on a daily basis. Revenue automation system is to be implemented in 2014/15 financial year. Figure 1. below shows quarterly revenue trends performance in period under review.

Figure 1. Quarterly Revenue trend in Millions for 2013/14 Financial year



10. From the various revenue streams performance, a total of Kshs. 453,371,648.33 was collected. A breakdown of the locally collected revenue per stream is shown in table 1.

Table 1. Revenue stream performance

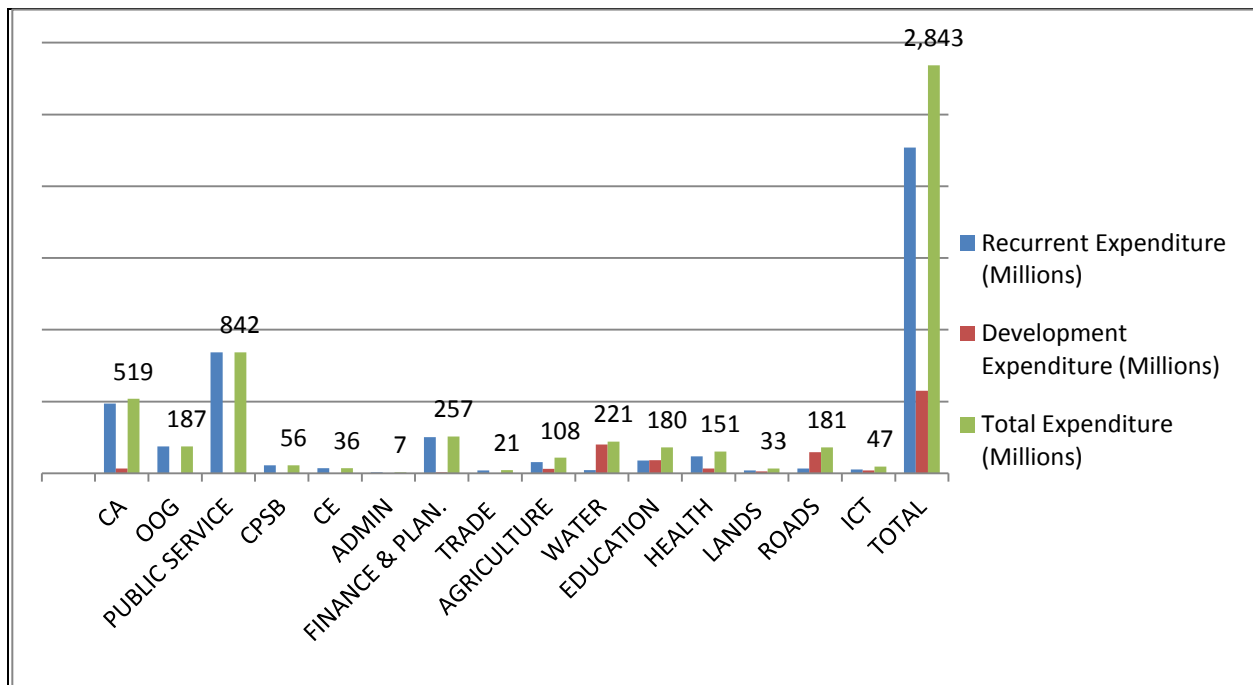
Major Revenue Streams	FY 2013/2014
Miscellaneous	140,856,220
Royalties	88,129,008
Building Plan Approvals	76,347,186
SBP	54,261,980
Land Rates	50,267,061
Sand cess	22,689,883
Quarry Chip cess	8,601,251
Mining Fees	3,537,713
Change of User	4,163,604
Cesses	2,750,689
Plot rent	193,331
Building Inspection	6,047
Subdivision	265,200
Manure cess	353,960
House & Stall Rent	<u>948,515</u>
Total	453,371,648

Source: County Treasury

Expenditure Review

11. During the period under review, Kshs. 3.14 billion was released to the County which included Kshs. 2.1 billion (68%) for recurrent expenditure and Kshs. 1 billion (32%) for development Expenditure. Figure 2 below indicates the analysis of expenditure per ministry by category.

Figure 2. Analysis of Total Expenditure by Function



12. Out of the 1 billion for development, the County spent a total of Kshs. 574.5 million in the FY 2013/2014. On recurrent activities, the county spent a total of Kshs. 2.2 billion representing 90% absorption rate. The county's absorption rate on development was low (46.2%) due to late disbursement of development funds. Development funds had been committed by close of 2013/14 financial year.

D. Fiscal Performance in the FY 2013/14 Compared to the Budget Appropriation and the County Fiscal Strategy Paper Financial Objectives

13. Financial year 2013/14 was the first year for the county governments and thus provides the base for the county's economic performance. It was characterized with mostly formation and setting up of systems. Integrated Financial Management Information System (IFMIS) was one critical system formed to enhance financial management at the county.

14. The underperformance of own county revenue in the FY 2013/14 had implications in the resource envelope and the base used to project the revenue

for the tax items in the FY 2014/15. Due to underperformance in local revenue mobilization, going forward the County Government has invested in various measures to ensure the county realizes the revenue projection of Ksh. 1.8 billion.

They include;

- Revenue automation system,
- Ministries as collectors of revenue
- Enhance supervision and reinforcement

15. The under-spending in both recurrent and development expenditure for the FY 2013/14 has implication on the base used to project expenditures in the FY 2014/15 and the medium term. It is also worth noting that functions that had not been adequately funded in 2012/13 budget were taken care of in the 2013/14 budget, while improving on the base to inform the 2014/15 budget.

16. The actual county expenditure was Kshs. 2.8 billion comprising of Ksh. 2.269 billion on recurrent and Kshs. 574.5 million on development. The table below indicates deviation from both the approved estimates and actual expenditure from the County Fiscal Strategy Paper ceilings.

Table 2. Final Approved Estimates and Expenditure per Department

DEPARTMENT/ SECTOR		CFSP 2013/14 Ceilings	Final Approved Estimates	Actual Expenditure	Deviation from CFSP: Approved Estimates- CFSP Ceilings	Deviation from Approved Estimates: Actual Expenditure- Approved Estimates
COUNTY ASSEMBLY	SUB-TOTAL	642,541,602	670,271,602	518,918,957.05	27,730,000	(151,352,644.45)
	Rec Gross	602,541,602	609,541,602	486,357,728.85	7,000,000	-123,183,873
	Dev. Gross	40,000,000	60,730,000	32,561,228.20	20,730,000	-28,168,772
OFFICE OF THE GOVERNOR	SUB-TOTAL	125,277,450	192,574,787	186,697,157	67,297,337	(5,877,630)
	Rec Gross	124,650,000	191,947,337	186,520,757.25	67,297,337	-5,426,580
	Dev. Gross	627,450	627,450	76,400.00	0	-451,050
COUNTY PUBLIC SERVICE	SUB-TOTAL	736,595,070	844,516,448	841,735,444	107,921,378	(2,781,004)
	Rec Gross	736,595,070	844,516,448	841,735,444.20	107,921,378	-2,781,004
	Dev. Gross	0	0	0	0	0
COUNTY PUBLIC SERVICE BOARD	SUB-TOTAL	100,000,000	60,672,414	55,673,917	(39,327,586)	(4,998,497)
	Rec Gross	100,000,000	60,672,414	55,673,917	-39,327,586	-4,998,497
	Dev. Gross	0	0	0	0	0
COUNTY EXECUTIVE	SUB-TOTAL	57,273,500	37,151,497	35,815,683	(20,122,004)	(1,335,814)
	Rec Gross	57,273,500	37,151,497	35,815,682.9	-20,122,004	-1,335,814
	Dev. Gross	0	0	0	0	0
COUNTY EXECUTIVE	SUB-TOTAL	14,766,500	7,440,723	7,071,659	(7,325,777)	(369,064)
	Rec Gross	14,766,500	7,440,723	7,071,658.70	-7,325,777	-369,064

DEPARTMENT/ SECTOR		CFSP 2013/14 Ceilings	Final Approved Estimates	Actual Expenditure	Deviation from CFSP: Approved Estimates- CFSP Ceilings	Deviation from Approved Estimates: Actual Expenditure- Approved Estimates
ADMINISTRATION	Dev. Gross	0	0	0	0	0
FINANCE AND PLANNING	SUB-TOTAL	413,288,450	306,190,177	257,069,459	(107,098,274)	(49,120,718)
	Rec Gross	367,202,450	281,190,177	250464236.8	-86,012,274	-30,725,940
	Dev. Gross	46,086,000	25,000,000	6605222	-21,086,000	-18,394,778
TRADE AND ENTERPRISE DEV.	SUB-TOTAL	115,620,000	43,770,855	21,480,881	(71,849,145)	(22,289,975)
	Rec Gross	70,620,000	21,976,475	20630755.5	-48,643,525	-1,345,720
	Dev. Gross	45,000,000	21,794,380	850125	-23,205,620	-20,944,255
AGRICULTURE	SUB-TOTAL	191,565,000	130,508,279	108,074,434	(61,056,721)	(22,433,845)
	Rec Gross	146,565,000	78,708,279	76663857.6	-67,856,721	-2,044,422
	Dev. Gross	45,000,000	51,800,000	31410576.85	6,800,000	-20,389,423
WATER AND IRRIGATION	SUB-TOTAL	370,330,000	319,714,460	220,795,661	(50,615,540)	(98,918,799)
	Rec Gross	69,580,000	23,964,460	21,005,850.10	-45,615,540	-2,958,610
	Dev. Gross	300,750,000	295,750,000	199,789,811.15	-5,000,000	-95,960,189
EDUCATION	SUB-TOTAL	304,300,368	362,618,998	179,723,977	58,318,630	(182,895,021)
	Rec Gross	163,300,368	91,618,998	89,386,251.50	-71,681,370	-2,232,747
	Dev. Gross	141,000,000	271,000,000	90,337,725.50	130,000,000	-180,662,275
HEALTH	SUB-TOTAL	248,315,000	258,792,369	150,590,869	10,477,369	(108,201,500)
	Rec Gross	148,315,000	158,792,369	117,066,158.80	10,477,369	-41,726,210
	Dev. Gross	100,000,000	100,000,000	33,524,710.20	0	-66,475,290
LANDS AND PHYSICAL PLANNING	SUB-TOTAL	118,920,000	83,734,176	32,851,321	(35,185,825)	(50,882,854)
	Rec Gross	63,920,000	43,734,176	20,408,435.50	-20,185,825	-23,325,740
	Dev. Gross	55,000,000	40,000,000	12,442,885.75	-15,000,000	-27,557,114
WORKS AND HOUSING	SUB-TOTAL	487,020,000	369,097,081	180,706,121	(117,922,919)	(188,390,960)
	Rec Gross	85,820,000	36,108,970	33,142,709.60	-49,711,030	-2,966,260
	Dev. Gross	401,200,000	332,988,111	47,563,411.15	-68,211,889	-185,424,700
INFORMATION COMMUNICATION	SUB-TOTAL	116,750,000	71,126,930	46,564,058	(45,623,071)	(24,562,872)
	Rec Gross	56,750,000	28,218,030	27,243,269.30	-28,531,971	-974,760
	Dev. Gross	60,000,000	42,908,900	19,320,788.25	-17,091,100	-23,588,112
TOTAL	TOTAL	4,042,562,940	3,758,180,794	2,843,769,597.60	(284,382,146)	(914,411,197)
	Rec Gross	2,807,899,490	2,515,581,953	2,269,186,713.55	-292,317,537	-246,395,240
	Dev. Gross	1,234,663,450	1,242,598,841	574,582,884.05	7,935,391	-668,015,957

Source: County Treasury

17. The total deviation of the approved estimates from the CFSP was a total of Kshs. 284.3 million. This deviation resulted from the fact that it was the county's first budget which formed the basis for the CFSP. The County Treasury had to ensure that all departments are adequately funded to perform their respective functions, this necessitated for supplementary allocations.

18. Actual Expenditure deviated from the approved estimates by Kshs. 914.4 million resulted from commitments (pending bills) done by end of last financial year.

Recent Economic developments and the outlook for the year

19. The County's performance is largely dependent on the formulation and implementation of prudent policies to guide service delivery and the country's/global economic performance. Generally, the county operated under a stable macroeconomic environment.

A. Recent Development

20. A large portion of development expenditure equivalent to 80 percent was used in infrastructural development. This constituted construction of access roads to support access to markets, health and water facilities among others.

21. The county also embarked on a comprehensive strategy to improve health care by procuring five ambulances distributed to each sub county. Procurement of drugs and other consumables for the public health facilities. Enhancement of the county referral facility is currently on going.

22. To enhance water access, the county implemented various projects like drilling of boreholes, dams and water pans, laying of pipes to supply water to households and towns and spring protection.

23. Employment creation has been enhanced by supporting the productive sectors, five milk coolants were procured and handed over to women groups across the county. Promotion and support to various Savings and Credit Cooperative Organizations (SACCO) through training has been enhanced. Efforts to promote tourism and other investment opportunities were some of the major achievements in 2013/14.

24. To enhance service delivery, significant expenditure were inevitable. Some of the expenses went towards providing office space through refurbishment of offices, purchase of furniture, computers and other office equipment, purchase of vehicles, training and recruitment of new staff.

B. Economic Risks

25. Kajiado county economic growth remains positive despite the risks. The economy is vulnerable to both exogenous and endogenous shocks that threatens macroeconomic stability. The macroeconomic management and performance of most of the sectors under the National Government have a ripple effect on some sectors in the County.
26. The risks to the 2013/14 financial year's budget include challenges in revenue performance as the county continues to put structures in place, seal loop holes and expand the revenue base.
27. The current process of county restructuring, recruitment and rationalization of staff is expected to exert pressure on wage expenditures.
28. Public expenditure pressures especially recurrent expenditures pose fiscal risks. With the commitment to improve infrastructure within the county, the share of resources going to priority physical infrastructure sector such as roads and water will rise over medium term.
29. The main economic driver for the county being agriculture and especially livestock keeping is threatened by the rampant land subdivision and unreliable weather patterns.

Resource Allocation Framework

30. Resource allocation and utilization in the coming financial years and the medium term will be guided by the following in order to ensure effective utilization of public finances;
 - i. Emerging priorities
 - ii. County Integrated Development Plan (CIDP)
 - iii. PFM Act, 2012
 - iv. Medium Term Plan II (2013-17).

31. Adjustments to the 2014/15 budget will take into account the actual performance of expenditure so far, and absorption capacity in the remainder of the financial year. Because of the resource constraint, the county will rationalize expenditures by cutting those that are non-core. These may include reprioritizing development expenditures in order for the county to live within its means. However resources earmarked for development purposes will be utilized for development projects and will not be expended as recurrent.
32. Any reviews of salaries and benefits for the county public officers will be conducted by the County Public Service Board (CPSB) in consultation with Salaries and Remuneration Commission (SRC). The county, is currently undertaking the Capacity Assessment and Rationalization Program.
33. CG has prioritized key strategic interventions across all departments to accelerate economic growth and poverty alleviation. The main areas being to boost agriculture and livestock productivity, improved access to quality health care and clean water, enhancing access by opening/maintenance of roads, empowering youth and infrastructural development at the ECDE centres and youth polytechnics.
34. In the lands sector, reforms are expected to ensure mainstreaming of operations and land use planning.

Revenue Outlook

35. The revenue projection for 2013/2014 fiscal year as per the printed estimate was estimated at Kshs. 516.8 million. The county achieved 88 percent of the targeted amount. Revenue raising measures have been enhanced by developing requisite legal and administrative framework to support revenue growth.
36. The revenue for 2015/16 financial year will further be guided by the need to ensure equity by the review of various rates, charges, fees and levies some of which have been accomplished through the Finance Act, 2014 for Kajiado County. This will be

further strengthened by the update of the various revenue streams database including the single business permits, plot and land rates, building plans approval, street parking and barter markets. Automation of revenue collection systems will further boost our local revenue. Improvement of infrastructure like markets, parking areas etc will enhance local revenue collection.

Conclusion and way forward

37. The fiscal outlook presented herein will seek to achieve the objectives outlined in the PFM Act and lay ground for the next financial year in terms of preparing the CFSP.
38. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds especially on capacity building on different sectors of the county will be crucial in ensuring that the County gets to deliver on its functions.
39. The County Treasury requires to fully implement the legal framework for revenue mobilization and invest in setting systems and developing infrastructure to enhance revenue collection.
40. The county government needs to develop efficient structures and manageable wage bill while enhancing service delivery.
41. CG needs to take greater attention to address land use planning and invest in water harnessing strategies for pasture and food production throughout the year.
42. There has been a vibrant real estate sector growth in the county which is expected to translate to increased county revenue and job creation. The county therefore needs to put in place policies to guide real estate development.

43. The county's good tourist attractions including wildlife, the natural land form and salient features which provide a conducive environment for eco-tourism, camping and expedition sites. These are expected to boost economic growth in the county.